

Fact Sheet on Credit Insurance

OFFICE OF THE COMMISSIONER OF INSURANCE

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What is credit insurance?

It is insurance sold with a credit transaction, such as a loan or credit card, that will pay all or a portion of the outstanding credit balance if a claim is filed, or, if it is credit property insurance, usually pays the lesser of the value of the item or the balance of the loan. If you decide to purchase the insurance the cost of it is typically added to the balance of your credit transaction.

Are there different types of credit insurance?

Yes, they are:

- ✓ Credit Life Insurance—is similar to a term life insurance policy, however, when a borrower dies the proceeds of the policy are used to pay off all or part of the borrower's debt. The payment goes to the lender, which is the named beneficiary on the insurance policy. If the insurance proceeds are greater than the debt, the surplus is paid to the borrower's estate.
- ✓ Credit Disability Insurance—pays all or a part of a borrower's monthly loan payment in the event the borrower is totally disabled.
- ✓ Involuntary Unemployment Insurance—pays all or a part of a borrower's monthly loan payment in the event the borrower loses income as a result of either a labor dispute or involuntary unemployment.
- ✓ Credit Property Insurance—insurance written in connection with a credit transaction where the collateral is not a motor vehicle, mobile home or real estate and that (1) covers perils to the goods purchased through a credit transaction or used as collateral for a credit transaction and that concerns a creditor's interest in the purchased goods or pledged collateral either in whole or in part; or (2) covers perils to goods purchased in connection with an open end credit transaction.

Can credit insurance be a requirement to obtain a loan?

Life, Disability, and Unemployment—No, lenders cannot require you to purchase the insurance and may not deny your credit application if you decide not

to purchase the insurance. A lender cannot add the cost of credit insurance to your credit transaction unless you have signed a request for the insurance.

Property—Lenders can require that any property that is used as collateral on a credit transaction be insured. If the consumer does not already have insurance on the property, then insurance will need to be purchased at the time the credit is extended. However, lenders cannot require the consumer to purchase insurance from them. Whether the required property insurance is purchased from the lender or directly from an insurance company, the lender will usually require that they be covered under the insurance policy for the balance of the loan. Lenders may also offer credit property insurance that is not required. This optional insurance could insure collateral and/or non-collateral property.

May I cancel the credit insurance after I purchase it?

Yes, if you cancel within 10 days (30 days for credit property insurance) of the purchase you are entitled to a full refund of the insurance premium. If you cancel after the first 10 days (30 days for credit property insurance) you will receive a partial refund. In this case, the amount of the premium refund will usually be calculated by either the Rule of 78 method or the pro-rata method. If you cancel required property insurance then you may need to substitute it with another property insurance policy.

Required property insurance that the lender adds to your credit transaction because you did not purchase it yourself is called "force-placed" insurance. A consumer should avoid having insurance "force-placed" on a credit transaction because such insurance is more expensive than insurance that is not "force-placed."

What does credit insurance cost?

The cost depends on the amount of the credit balance, the type of credit extended and the type of policy purchased. The larger a credit balance is the

more it will cost to insure it. For a typical auto loan in which the customer borrows \$15,000 for four years at 9%, credit life insurance will cost approximately \$265 and disability insurance will cost \$475. These premiums are based on the typical situation in which the insurance covers not only the principal amount of \$15,000 but also the finance charges that would accrue on that balance. Finance charges in this example would amount to \$2,917.

Should I buy credit insurance?

Generally credit insurance is expensive in comparison to other forms of insurance. As an example for a person in good health, the chart below compares the approximate annual cost of credit life insurance to term life insurance for coverage of \$50,000.

Age	Credit Life	Term Life
22	\$342	\$ 69
30	342	70
40	342	77
50	342	126
60	342	226

For a person who already has a comprehensive homeowners or renters insurance policy, credit property insurance will duplicate existing coverage and may not be recommended.

May claims be denied on credit disability insurance?

Claims may be denied for certain reasons. For instance, credit disability insurance is usually sold on a so-called "6 by 6" plan. This means if you file a claim within the first 6 months of the credit transaction for a health condition that you were treated for during the 6 months prior to obtaining the credit, your claim can be denied due to the "pre-existing condition" clause. Additionally, the definition of total disability changes after the borrower is disabled for 1 year. During the first 12 consecutive months of disability, disability is defined as the inability to perform the duties of the regular occupation at the time the disability occurred. After the disability has lasted for 12 consecutive months, disability is defined as the inability to perform **any** occupation for which the borrower is reasonably fitted by education, training, or experience.

Credit disability insurance may not last for the entire duration of the loan. Credit disability insurance is generally written for 60 months, and any payments due after the insurance termination would not be covered. Credit insurance also may not cover balloon payments that are due at the end of a loan.

Helpful tips when considering credit insurance

- ❖ Be sure to consider whether you really need credit coverage. Compare the amount of insurance provided and the cost of insurance with various companies.
- ❖ Be sure you understand the limitations of the coverage. The coverage may not be enough to completely pay off your debt or cover the property. Insurance on a credit card only pays the minimum monthly payment; it does not pay off the total credit card balance.
- ❖ Be careful of "free" insurance offers. Many companies offer a free introductory period for 30 to 90 days, but to cancel the insurance after this period takes action on your part.
- ❖ When solicited over the phone, be sure to ask for the name of the caller, as well as the name of the company the caller represents. If you do not want the coverage, simply inform the solicitor of your wishes and hang-up.
- ❖ Be sure to review credit card statements carefully. If a charge for insurance that you did not request appears on your statement, report the unauthorized charge immediately to both the credit card issuer and the insurance company. A phone number for the insurance company usually appears next to the premium charge on the credit card statement.
- ❖ When taking out a loan of any kind, look over all the documents before you sign anything. Don't be afraid to ask questions if you don't understand something you are being asked to sign.
- ❖ Remember that lenders cannot condition a consumer loan on whether or not you purchase credit life, disability, or unemployment insurance.

Where to Go for Help

If you have a specific complaint about your insurance, refer it first to the insurance company or agent involved. If you do not receive satisfactory answers, contact the Office of the Commissioner of Insurance.

For your convenience, a complaint form is included in OCI's Web site, **oci.wi.gov**. For information on how to file insurance complaints call:

(608) 266-0103 (In Madison) or
1-800-236-8517 (Statewide)

Mailing Address

Office of the Commissioner of Insurance
P.O. Box 7873
Madison, WI 53707-7873

Electronic Mail

complaints@oci.state.wi.us
(please indicate your name, phone number, and e-mail address)